

VILLAGE OF ALLEN

AUDIT REPORT

JUNE 30, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name VILLAGE OF ALLEN	County HILLSDALE
Fiscal Year End 6-30-2005	Opinion Date 5-21-08	Date Audit Report Submitted to State 5-23-08	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

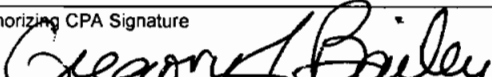
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) BAILEY, HODSHIRE & COMPANY, PC		Telephone Number (517) 849-2410	
Street Address 479 E CHICAGO ST PO BOX 215		City JONESVILLE	State MI
Zip 49250			
Authorizing CPA Signature 	Printed Name GREGORY J BAILEY	License Number 1101022915	

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Bailey, Hodshire & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Village Council
Village of Allen
Allen, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Village of Allen, as of and for the year ended June 30, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Allen's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Village of Allen, as of June 30, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of June 30, 2005.

The management's discussion and analysis and budgetary comparison information on pages 2 through 5 and pages 18 through 21, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Bailey, Hodshire + Company, P.C.
Jonesville, Michigan
May 21, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Village of Allen's annual financial report presents the Management's Discussion and Analysis (MD&A) of the Village's financial activities during the fiscal year ended June 30, 2005. The analysis focuses on the Village's financial performance as a whole. It is intended to be read as part of the Village's financial statements, which immediately follow this section.

Because the Village of Allen is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the Village's financial position and results of operations.

FINANCIAL HIGHLIGHTS

- The assets of the Village of Allen exceeded its liabilities at June 30, 2005, by \$291,572. Of this amount, \$204,782 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors. The net assets of the Village increased by \$4,648 during the year.

USING THIS REPORT

The annual report consists of a series of financial statements including other requirements as follows:

1. Management's Discussion & Analysis introduces the basic financial statements and provides an analytical overview of the Village's financial activities.
2. Government-wide financial statements consist of a *statement of net assets* and a *statement of activities*. These provide information about the activities of the Village as a whole and represent an overall view of the Village's finances.
3. Fund financial statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the most significant funds.
4. Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
5. Required supplementary information, other than the MD&A, provides information about the required budgetary comparison information.

REPORTING THE VILLAGE AS A WHOLE

The government-wide financial statements report information about the Village as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Village's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

One of the most important questions asked about the Village's finances is: Is the Village as a whole better off or worse off as a result of the year's activities? The statement of net assets and the statement of activities report information on the Village as a whole and its activities in a way that helps answer this question. These statements include *all* assets and liabilities, using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. The two statements report the Village's *net assets* - - the difference between assets and liabilities - - as one way to measure the Village's financial health, or financial position. Over time, increases or decreases in the Village's net assets are one indicator of whether its financial

MANAGEMENT'S DISCUSSION AND ANALYSIS

health is improving or deteriorating. Additional factors such as changes in the Village's property tax base and the condition of the Village's infrastructure are also important in making this decision.

REPORTING THE VILLAGE'S MOST SIGNIFICANT FUNDS

The fund financial statements provide detailed information about the Village's most significant funds, not the Village as a whole. Some funds are required to be established by state law and by bond covenants. The Village may establish other funds to account for and manage revenue and expenditures that are related to specific projects (i.e. capital improvements), grants or other purposes.

Governmental Funds - All of the Village's basic services are included in governmental funds. They focus on how money flows into and out of the funds and the balances at year-end that are available for spending. Governmental funds include the General Fund and Special Revenue Funds (Major Street and Local Street). These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed, short-term view of the Village's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Village's programs.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The following table shows the Village's net assets as of June 30, 2005:

ASSETS	
Current assets	\$ 204,989
Capital assets, net of accumulated depreciation	<u>86,790</u>
Total assets	<u>\$ 291,779</u>
LIABILITIES	
Current liabilities	\$ 207
Long-term liabilities	<u>0</u>
Total liabilities	<u>\$ 207</u>
NET ASSETS	
Invested in capital assets, net of related debt	\$ 86,790
Restricted	0
Unrestricted	<u>204,782</u>
Total net assets	<u><u>\$ 291,572</u></u>

A portion of the Village's net assets is invested in capital assets (e.g. land, infrastructure, buildings, and equipment), less related debt (if any). Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Total unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints, is \$204,782.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table provides the Village's change in net assets for the year ended June 30, 2005:

Program revenue	
Charges for services	\$ 0
Operating grants and contributions	10,903
Capital grants and contributions	0
General revenue	
Property taxes	7,438
State Shared Revenue	16,432
Other	<u>3,614</u>
Total revenue	<u>\$ 38,387</u>
Expenses	
General government	\$ 17,250
Public works	14,989
Parks and recreation	<u>1,500</u>
Total expenses	<u>\$ 33,739</u>
INCREASE(DECREASE) IN NET ASSETS	<u>\$ 4,648</u>

INDIVIDUAL GOVERNMENTAL FUND ANALYSIS

As the Village of Allen completed its year, its governmental funds reported a total fund balance of \$204,782, which is more than the \$199,986 fund balance at June 30, 2004.

- The General Fund, the operating fund for the Village, ended the year with a \$48,275 fund balance, compared to the prior year ending fund balance of \$48,406.
- Major Street Fund Balance increased by \$3,797.
- Local Street Fund Balance increased by \$1,130.

BUDGETARY HIGHLIGHTS

Higher than anticipated property taxes and slightly higher state-shared revenues and interest on certificates of deposit allowed for higher than anticipated revenues for the year. However, increased expenditures, especially the decision to add sidewalk repair, led to an overall reduction in the operating surplus.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Village's investment in capital assets, including land, buildings and improvements, equipment, roadways and other infrastructure represents the value of the resources utilized to provide services to citizens. Capital assets totaled \$86,790 (net of accumulated depreciation) at June 30, 2005. See the notes to the financial statements for more information about the Village's capital assets. Capital outlay for the year was \$3,940 for new sidewalks.

MANAGEMENT'S DISCUSSION AND ANALYSIS

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The budget for fiscal year 2005-06 was based on prior year figures, taking into consideration the reduction in the millage rate by the Headlee Amendment to 2.08710 mills. We also anticipated a reduction in state revenue sharing and lower interest rates.

Expenditures were budgeted similarly to the prior year with the two main exceptions being additional budgeted to cover the scheduled election and the audit being due this year. One other exception being the removal of money budgeted for sidewalk repair due to the village only repairing sidewalks every other year.

CONTACTING THE VILLAGE'S MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors, creditors, and other interested parties with a general overview of the Village's finances and operating activities. If you have any questions or require additional information, please contact the Village of Allen, P.O. Box 145, Allen, Michigan 49227.

BASIC FINANCIAL STATEMENTS

VILLAGE OF ALLEN
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental <u>Activities</u>
ASSETS	
Current assets	
Cash	\$ 185,815
Due from other governmental units	<u>19,174</u>
Total current assets	<u>\$ 204,989</u>
Noncurrent assets	
Capital assets	
Land	\$ 31,268
Buildings and improvements	50,000
Equipment	12,913
Infrastructure	40,936
Less: accumulated depreciation	<u>(48,327)</u>
Net capital assets	<u>\$ 86,790</u>
Total assets	<u><u>\$ 291,779</u></u>
LIABILITIES	
Current liabilities	
Payroll taxes payable	<u>\$ 207</u>
NET ASSETS	
Invested in capital assets, net of related debt	\$ 86,790
Unrestricted	<u>204,782</u>
Total net assets	<u>\$ 291,572</u>
Total liabilities and net assets	<u><u>\$ 291,779</u></u>

See accompanying notes to the basic financial statements.

VILLAGE OF ALLEN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary government:					
Governmental activities:					
General government	\$ 17,250	\$ 0	\$ 0	\$ 0	\$ (17,250)
Public works	14,989	0	10,903	0	(4,086)
Parks and recreation	<u>1,500</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,500)</u>
Total governmental activities	<u>\$ 33,739</u>	<u>\$ 0</u>	<u>\$ 10,903</u>	<u>\$ 0</u>	<u>\$ (22,836)</u>
General revenue:					
Property taxes levied for general purposes					\$ 7,438
State shared revenue					16,432
Unrestricted investment income					3,514
Miscellaneous					<u>100</u>
Total general revenue					<u>\$ 27,484</u>
Change in net assets					\$ 4,648
Net assets - beginning					<u>286,924</u>
Net assets - ending					<u><u>\$ 291,572</u></u>

See accompanying notes to the basic financial statements.

VILLAGE OF ALLEN
BALANCE SHEET
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash & cash equivalents	\$ 16,483	\$ 13,682	\$ 10,078	\$ 40,243
Certificates of deposit	31,999	56,445	57,128	145,572
Due from other governmental units	<u>0</u>	<u>13,393</u>	<u>5,781</u>	<u>19,174</u>
Total assets	<u>\$ 48,482</u>	<u>\$ 83,520</u>	<u>\$ 72,987</u>	<u>\$ 204,989</u>
LIABILITIES				
Accounts payable	\$ 207	\$ 0	\$ 0	\$ 207
FUND BALANCES				
Unreserved	<u>48,275</u>	<u>83,520</u>	<u>72,987</u>	<u>204,782</u>
Total liabilities and fund balances	<u>\$ 48,482</u>	<u>\$ 83,520</u>	<u>\$ 72,987</u>	<u>\$ 204,782</u>

The accompanying notes are an integral part of this statement.

VILLAGE OF ALLEN
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2005

Fund Balances - total governmental funds	\$ 204,782
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	135,117
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Deduct: accumulated depreciation	<u>(48,327)</u>
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Net assets of governmental activities	<u>\$ 291,572</u>
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The accompanying notes are an integral part of this statement.

VILLAGE OF ALLEN
STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Total Governmental Funds</u>
REVENUE				
Property taxes	\$ 7,438	\$ 0	\$ 0	\$ 7,438
State shared revenue	16,432	7,616	3,287	27,335
Interest income	886	1,659	969	3,514
Miscellaneous	<u>100</u>	<u>0</u>	<u>0</u>	<u>100</u>
Total revenue	<u>\$ 24,856</u>	<u>\$ 9,275</u>	<u>\$ 4,256</u>	<u>\$ 38,387</u>
EXPENDITURES				
General government	\$ 14,800	\$ 0	\$ 0	\$ 14,800
Public works	4,747	5,478	3,126	13,351
Parks and recreation	1,500	0	0	1,500
Capital outlay	<u>3,940</u>	<u>0</u>	<u>0</u>	<u>3,940</u>
Total expenditures	<u>\$ 24,987</u>	<u>\$ 5,478</u>	<u>\$ 3,126</u>	<u>\$ 33,591</u>
REVENUE OVER (UNDER) EXPENDITURES	\$ (131)	\$ 3,797	\$ 1,130	\$ 4,796
FUND BALANCES - Beginning	<u>48,406</u>	<u>79,723</u>	<u>71,857</u>	<u>199,986</u>
FUND BALANCES - Ending	<u>\$ 48,275</u>	<u>\$ 83,520</u>	<u>\$ 72,987</u>	<u>\$ 204,782</u>

The accompanying notes are an integral part of this statement.

VILLAGE OF ALLEN
Reconciliation of Statement of Revenue, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2005

Net changes in fund balances - total governmental funds	\$ 4,796
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	3,940
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Deduct: depreciation expense	<u>(4,088)</u>
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Change in net assets of governmental activities	<u>\$ 4,648</u>
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The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

VILLAGE OF ALLEN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Allen comprises a population of approximately 225 residents in Hillsdale County, Michigan. It operates under the Council-President form of government and provides the following services as authorized by its charter: highways and streets, parks and recreation, public improvements, and general administrative services.

The accounting policies of the Village of Allen conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). In June, 1999, the GASB approved Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*. Certain of the significant changes in the Statement include the following:

- For the first time, the financial statements include:
 - A Management Discussion and Analysis (MD&A) section providing an analysis of the Village's overall financial position and results of operations.
 - Financial statements prepared using full accrual accounting for all of the Village's activities, including fixed assets (buildings, equipment, vehicles, etc.) and infrastructure (roads, bridges, etc.)
- A change in the fund financial statements to focus on major funds.

The Village has elected to implement the provisions of the Statement in the current year; therefore, these and other changes are reflected in the accompanying financial statements and notes to the financial statements.

The following is a summary of significant accounting policies used by the Village of Allen:

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements - The statement of net assets and the statement of activities display financial information about the Village as a whole, excluding fiduciary activities. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Village's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the function and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, State Revenue Sharing, and other items not properly included among program revenues are reported as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Village.

Fund Financial Statements - Fund financial statements report detailed information about the Village. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds (if any) are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

VILLAGE OF ALLEN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting including the reclassification or elimination of internal activity (between or within funds). Revenue is recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is to be collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Under the modified accrual basis, property taxes, State revenue sharing, interest, and grants are considered to be both measurable and available at fiscal year-end. Grants received before the eligibility requirements are met are recorded as deferred revenue.

Financial Statement Presentation

The Village uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Village functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

The Village reports the following major governmental funds:

General Fund - used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the laws of the State of Michigan.

Special Revenue Funds - used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust, or major capital projects) that are legally restricted to expenditures for specified purposes (i.e. Major Streets and Local Streets).

Assets, Liabilities, and Net Assets

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less.

Capital Assets - General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Village maintains a capitalization threshold of \$1,500. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the

VILLAGE OF ALLEN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

the related assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings & improvements	50 years
Furniture & equipment	5 - 10 years
Infrastructure	25 years

Interfund Balances - On fund financial statements, receivables and payables resulting from short-term interfund loans are reported as "due to/from other funds." These amounts are eliminated on the government-wide statement of net assets.

Fund Balance - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Interfund Activity - Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information - The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. The legal level of budgetary control has been established by the Village Council at the activity level. Any budgetary modifications may only be made by resolution of the Village Council. All annual appropriations lapse at fiscal year end.

The Village follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements:

- 1) Prior to June 30, the Village Council proposes budgets for the fiscal year commencing on April 1.
- 2) A public hearing is conducted during February to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.
- 4) For purposes of meeting emergency needs of the Village, transfer of appropriations may be made by the authorization of the Village Council.
- 5) The Village Council is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

VILLAGE OF ALLEN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

During the year, the Village incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Fund</u>	<u>Description</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General	Clerk	\$ 2,125	\$ 2,271	\$ 146
"	Village Hall and grounds	6,970	7,922	952
"	Miscellaneous	0	146	146
"	Sidewalks	0	3,940	3,940
Major Streets	Contracted services	3,000	5,343	2,343
Local Streets	Contracted services	1,500	3,036	1,536

NOTE 3 - DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended), authorizes the Village to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Village's investment policy makes no further limitation on investments. As of June 30, 2005, the Village's deposits are in accordance with statutory authority.

Deposits

Following are the components of the Village's bank deposits at June 30, 2005:

Checking accounts	\$ 40,243
Certificates of deposit	<u>145,572</u>
Total	<u>\$ 185,815</u>

Custodial credit risk of deposits is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The Village does not have a deposit policy for custodial credit risk. At June 30, 2005, the carrying amount of the Village's deposits was \$185,815 and the bank balance was \$185,915. The entire bank balance was covered by federal depository insurance.

Investments

There were no investments held during the year.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2005, consist of State revenue sharing for Major and Local Streets. All receivables are considered collectible in full.

VILLAGE OF ALLEN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 31,268	\$ 0	\$ 0	\$ 31,268
Capital assets being depreciated				
Buildings & Improvements	\$ 50,000	\$ 0	\$ 0	\$ 50,000
Equipment	12,913	0	0	12,913
Infrastructure	36,996	3,940	0	40,936
Less accumulated depreciation	(44,239)	(4,088)	0	(48,327)
Total capital assets being depreciated, net	\$ 55,670	\$ (148)	\$ 0	\$ 55,522
Total capital assets, net	\$ 86,938	\$ (148)	\$ 0	\$ 86,790

Depreciation expense was charged to functions/programs of the Village as follows:

General government	\$ 2,450
Public works	3,387
Total	\$ 4,088

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

There were no amounts due between funds at June 30, 2005.

NOTE 7 - PROPERTY TAXES

Real estate and personal property taxes are recorded as revenue in amounts equal to the total taxes levied. The total levy for 2005 was 2.2993 mills on a total state taxable value of approximately \$3,200,000. Village properties are assessed as of July 31 (the lien date) - taxes levied July 1 of the succeeding year and are due without interest to September 15. After the final collection date, unpaid real property taxes are added to the county delinquent tax rolls. Personal property taxes unpaid continue to be collected by the Village Treasurer.

NOTE 8 - RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The Village has purchased commercial insurance for each of these areas of risk. There have been no significant reductions in insurance coverages, and settled claims have not exceeded the amount of insurance coverage for the current or the three prior years.

NOTE 9 - RESTATEMENTS

As of and for the year ended June 30, 2005, the Village implemented the following Governmental Accounting Standards Board pronouncements:

Statements

No. 33 - *Accounting and Financial Reporting for Nonexchange Transactions*

No. 34 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments.*

No. 36 - *Recipient Reporting for Certain Shared Nonexchange Revenues - An Amendment of GASB No. 33*

VILLAGE OF ALLEN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 9 - RESTATEMENTS (continued)

No. 37 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*

No. 38 - *Certain Financial Statement Disclosures*

Interpretations

No. 6 - *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

As a result of implementing these pronouncements for the year ended June 30, 2005, the following restatements were made to the beginning fund balance and net asset accounts:

Fund Balances of General and Special Revenue Funds as of June 30, 2005	\$ 199,986
Add: governmental capital assets as of June 30, 2005	131,177
Deduct: accumulated depreciation as of June 30, 2005, on the above governmental assets	<u>(44,239)</u>
Governmental net assets, restated, as of June 30, 2005	<u>\$ 286,924</u>

REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF ALLEN
SCHEDULE OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
Property taxes	\$ 7,300	\$ 7,300	\$ 7,438	\$ 138
State Shared Revenue	16,000	16,000	16,432	432
Interest	700	700	886	186
Miscellaneous	<u>225</u>	<u>225</u>	<u>100</u>	<u>(125)</u>
Total revenue	<u>\$ 24,225</u>	<u>\$ 24,225</u>	<u>\$ 24,856</u>	<u>\$ 631</u>
EXPENDITURES				
GENERAL GOVERNMENT				
Village council	\$ 2,275	\$ 2,275	\$ 1,650	\$ (625)
Elections	875	875	0	(875)
Legal fees	250	250	78	(172)
Clerk	2,125	2,125	2,271	146
Treasurer	2,450	2,450	2,184	(266)
Village Hall and grounds	6,970	6,970	7,922	952
Holidays and special events	150	150	100	(50)
Payroll taxes	480	480	449	(31)
Miscellaneous	<u>0</u>	<u>0</u>	<u>146</u>	<u>146</u>
Total general government	<u>\$ 15,575</u>	<u>\$ 15,575</u>	<u>\$ 14,800</u>	<u>\$ (775)</u>
PUBLIC WORKS				
Sidewalks	\$ 0	\$ 0	\$ 3,940	\$ 3,940
Drains	50	50	0	(50)
Streetlights	<u>4,800</u>	<u>4,800</u>	<u>4,747</u>	<u>(53)</u>
Total public works	<u>\$ 4,850</u>	<u>\$ 4,850</u>	<u>\$ 8,687</u>	<u>\$ 3,837</u>
RECREATION AND CULTURE				
Parks	\$ 1,500	\$ 1,500	\$ 1,500	\$ 0
Total expenditures	<u>\$ 21,925</u>	<u>\$ 21,925</u>	<u>\$ 24,987</u>	<u>\$ 3,062</u>
REVENUE OVER (UNDER) EXPENDITURES	\$ 2,300	\$ 2,300	\$ (131)	\$ (2,431)
FUND BALANCES - Beginning	<u>\$ 49,309</u>	<u>\$ 49,309</u>	<u>\$ 48,406</u>	<u>\$ (903)</u>
FUND BALANCES - Ending	<u>\$ 51,609</u>	<u>\$ 51,609</u>	<u>\$ 48,275</u>	<u>\$ (3,334)</u>

The accompanying notes are an integral part of this statement.

VILLAGE OF ALLEN
SCHEDULE OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
MAJOR STREETS FUND
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Budget Amounts</u>		<u>Actual</u>	Actual Over (Under) <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
State shared revenue	\$ 7,500	\$ 7,500	\$ 7,616	\$ 116
Interest	<u>1,060</u>	<u>1,060</u>	<u>1,659</u>	<u>599</u>
Total revenue	<u>\$ 8,560</u>	<u>\$ 8,560</u>	<u>\$ 9,275</u>	<u>\$ 715</u>
EXPENDITURES				
Street construction	\$ 0	\$ 0	\$ 0	\$ 0
Routine maintenance				
Contracted services	250	250	0	(250)
Winter maintenance				
Contracted services	3,000	3,000	5,343	2,343
Administration				
Salaries and wages	<u>135</u>	<u>135</u>	<u>135</u>	<u>0</u>
Total expenditures	<u>\$ 3,385</u>	<u>\$ 3,385</u>	<u>\$ 5,478</u>	<u>\$ 2,093</u>
REVENUE OVER (UNDER) EXPENDITURES	\$ 5,175	\$ 5,175	\$ 3,797	\$ (1,378)
FUND BALANCES - Beginning	<u>73,934</u>	<u>73,934</u>	<u>79,723</u>	<u>5,789</u>
FUND BALANCES - Ending	<u>\$ 79,109</u>	<u>\$ 79,109</u>	<u>\$ 83,520</u>	<u>\$ 4,411</u>

The accompanying notes are an integral part of this statement.

VILLAGE OF ALLEN
SCHEDULE OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
LOCAL STREETS FUND
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
State shared revenue	\$ 3,000	\$ 3,000	\$ 3,287	\$ 287
Interest	<u>930</u>	<u>930</u>	<u>969</u>	<u>39</u>
Total revenue	<u>\$ 3,930</u>	<u>\$ 3,930</u>	<u>\$ 4,256</u>	<u>\$ 326</u>
EXPENDITURES				
Street construction	\$ 0	\$ 0	\$ 0	\$ 0
Routine maintenance				
Contracted services	250	250	0	(250)
Winter maintenance				
Contracted services	1,500	1,500	3,036	1,536
Administration				
Salaries and wages	<u>90</u>	<u>90</u>	<u>90</u>	<u>0</u>
Total expenditures	<u>\$ 1,840</u>	<u>\$ 1,840</u>	<u>\$ 3,126</u>	<u>\$ 1,286</u>
REVENUE OVER (UNDER) EXPENDITURES	\$ 2,090	\$ 2,090	\$ 1,130	\$ (960)
FUND BALANCES - Beginning	<u>69,392</u>	<u>69,392</u>	<u>71,856</u>	<u>2,464</u>
FUND BALANCES - Ending	<u>\$ 71,482</u>	<u>\$ 71,482</u>	<u>\$ 72,986</u>	<u>\$ 1,504</u>

The accompanying notes are an integral part of this statement.

VILLAGE OF ALLEN
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2005

NOTE 1 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

During the year, the Village incurred expenditures which were in excess of the amounts appropriated, as follows:

<u>Fund</u>	<u>Description</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General	Clerk	\$ 2,125	\$ 2,271	\$ 146
"	Village Hall and grounds	6,970	7,922	952
"	Miscellaneous	0	146	146
"	Sidewalks	0	3,940	3,940
Major Streets	Contracted services	3,000	5,343	2,343
Local Streets	Contracted services	1,500	3,036	1,536

Bailey, Hodshire & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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May 21, 2008

To the Village Council
Village of Allen
Allen, Michigan

As a result of our audit of the financial statements of the Village of Allen as of and for the year ended June 30, 2005, we would like to make the following comments and recommendations:

1. There needs to be greater emphasis on completing the audit for submission to the State of Michigan in a more timely fashion. The due date is six months after the fiscal year-end (December 31 in your case). Financial records need to be submitted to the auditor in August or September in order to meet the December 31 deadline. This year, the State was close to sending in their own auditor, which would have been billed to the Village on a time and materials basis (very costly).
2. Act 51 reports also need to be completed timely in order to avoid suspension of State funding for Major Streets and Local Streets. The Village's interim financial reports should use the same expenditure categories as the Act 51 reports (Routine Maintenance, Winter Maintenance, etc.)
3. As noted in the audit report, governmental accounting standards now require the recording of capital assets on the Village's government-wide financial statements. The Village should adopt a "capitalization policy" to formalize the process.
4. Michigan law requires that all local units of government utilize the Uniform Chart of Accounts issued by the Michigan Department of Treasury. We recommend that the Village begin using this standard chart of accounts.
5. There were several accounts that had expenditures in excess of budgeted amounts. We recommend that the budgets be carefully reviewed prior to year-end and amended as necessary.

If we can be of assistance regarding these recommendations, please contact our office.

Respectfully,


Bailey, Hodshire & Company, P.C.